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TAGS: [KNNP](#) [MNUC](#) [IR](#) [GM](#) [XF](#) [ZP](#) [ZR](#) [XG](#) [XT](#) [IZ](#)
SUBJECT: IRAQ,S LICENSING OF BANK MELLI BRANCHES

REF: A. A. STATE 75291
[1](#)B. B. BAGHDAD 2075
[1](#)C. C. STATE 43381
[1](#)D. D. 08 BAGHDAD 02156
[1](#)E. E. 08 STATE 063693

[1](#)1. (U) This is an action request. Please see paragraph three.

SUMMARY

[1](#)2. (SBU) Recent press reports have noted that Iran is actively working to expand its banking relationships with its Middle Eastern neighbors. Iraq has been one focus for Iranian banks, and the Government of Iraq has granted a license for Bank Melli to open branches in Basra, Karbala, and Irbil. The U.S. has demarched Iraq several times regarding Iran's banking presence in Iraq (REFTEL), but the Government of Iraq continues to allow the banks to expand their presence. At a time when responsible states and banks are decreasing their economic dealings with Iran, allowing Iranian banks subject to international sanctions to expand their operations in Iraq is not a prudent step. Their presence may represent a threat to Iraq's security, given Iran's history of using its banks to move funds internationally to support terrorist organizations and WMD proliferation. Moreover, allowing sanctioned Iranian banks to expand their presence in Iraq represents a reputational risk to Iraq's banking system at the same time that the Government of Iraq is attempting to attract foreign investment to help rebuild the country. The U.S. urges Iraq to reconsider the licenses for any US-designated banks, especially Bank Melli's Baghdad branch and its planned branches in Basra, Karbala and Irbil, or at a minimum, to subject Bank Melli operations in Iraq to appropriate vigilance.

OBJECTIVES/ACTION REQUEST

[1](#)3. (SBU) Washington requests Post deliver the talking points and non-paper in paragraph 4 to appropriate host government officials in the Prime Minister's office. Post should pursue the following objectives:

-- Remind the GOI that the continued operation of Bank Melli and other Iranian banks in Iraq could threaten the integrity of the Iraqi banking system, could provide Iran a conduit to circumvent UN sanctions, and could cause Iraq to violate UN sanctions itself.

-- Remind the GOI that the U.S. and the E.U. have imposed sanctions on Bank Melli, including freezing Bank Melli assets, and that many countries and banks continue to reduce their business with Bank Melli and all Iranian banks given the risk of their involvement in illicit conduct.

-- Highlight to the GOI that if it allows Bank Melli to expand its operations in its jurisdiction, those branches would be subject to designation and asset freeze by the U.S. as well.

-- Reinforce the Financial Action Task Force's October 2009 warning that Iran's lack of engagement and failure to address its lack of anti-money laundering /combating the financing of terrorism (AML/CFT) controls represents a serious threat to the integrity of the international financial system. The FATF's October 2009 statement is its seventh one on Iran.

-- Remind the GOI that Iran's Islamic Revolutionary Guards Corps (IRGC) and IRGC-Qods Force, who channel funds to militant groups that target and kill Coalition and Iraqi forces and innocent Iraqi civilians, have used Bank Melli and other Iranian banks to move funds internationally. Bank Melli used deceptive banking practices to obscure its involvement from the international banking system by requesting that its name be removed from financial transactions when handling financial transactions on behalf of the IRGC.

-- Educate the GOI on the reputational risk that the presence of Bank Melli in Iraq poses for U.S., European and Asian banks considering doing business in Iraq.

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-- Remind the GOI that allowing Bank Melli and other Iranian banks to operate in Iraq undermines its efforts to attract foreign capital to contribute to the rebuilding and development of Iraq.

-- Remind the GOI that UNSCR 1803 calls on all states to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, including, in particular, Bank Melli, and that it is in Iraq's own interest to do so strongly and not minimally.

-- Emphasize that Iranian state-owned banks have a history of using deceptive financial practices to support illicit activity.

-- Offer U.S. advice and assistance in implementing supervision and controls.

BACKGROUND AND NONPAPER

14. BEGIN NON-PAPER

-- (U) Recent press reports have noted that Iran is actively working to expand its banking relationships with neighboring states, as many international banks have decided to end their financial connections to Iran due to the risk of financing proliferation-related activities. Iraq has been one focus for expanding Iranian bank branches. Bank Melli has had a branch in Baghdad since 2007, and the Government of Iraq has granted a license for Bank Melli to open additional branches in Basra, Karbala, and Irbil. Despite several demarches warning of the risks of expanded financial relationships with Iran in the past 18 months (REFTEL), your government granted the license and Bank Melli is taking steps toward opening the new branches. The licensing and continued operation of Bank Melli branches in Iraq threatens the integrity of the Iraqi banking system, and could provide Iran a conduit to circumvent UN sanctions.

-- (U) The United States and the European Union have imposed sanctions on Bank Melli, to include a freeze of Bank Melli's assets. Many financial institutions around the world have reduced their business with Bank Melli and all other Iranian banks given the risk of these banks participating in proliferation-related transactions. If Iran uses Iraqi banks

as alternative conduits for transactions related to funding terrorism or nuclear proliferation, this would damage the international reputation of Iraq's banks and their ability to expand their access to the international financial system.

-- (U) The UN Security Council unanimously adopted UNSCRs 1737 and 1747, which require UN Member States to apply targeted sanctions to entities and individuals designated in the resolutions for their involvement with Iran's proliferation-sensitive nuclear activities or ballistic missile program. Member States are required to prevent the provision of financial assets or economic resources to designated individuals/entities, and to freeze their assets as well as those of entities "owned or controlled" by them or persons/entities acting on their behalf (operative paragraph 12 of UNSCR 1737). Consistent with these obligations, UN Member States should ensure that financial services provided to Iranian banks are not used by designated entities/individuals to circumvent the restrictions unanimously adopted by the UNSC in UNSCRs 1737 and 1747.

-- (U) On October 11, 2009, the Financial Action Task Force (FATF) issued another statement warning of the risk of doing business with Iranian banks. The statement cautioned that Iran's lack of engagement and failure to address its lack of anti-money laundering /combating the financing of terrorism (AML/CFT) controls represents a serious threat to the integrity of the international financial system. FATF urged all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. FATF also called on members to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. If Iran does not take concrete steps to address FATF's concerns, it will consider calling on its members to strengthen countermeasures in February 2010.

-- (U) Bank Melli and other Iranian banks represent a potential threat to the security of Iraq, as well as to the international financial system. The IRGC and IRGC-Qods Force, which have provided lethal support to militant groups in Iraq, have sometimes used Bank Melli and other Iranian

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banks to deceptively move funds internationally. Bank Melli and other Iranian banks might be used as a conduit for funding militant activities that undermine Iraq's sovereignty and stability.

-- (U) Moreover, the presence of Bank Melli and other Iranian banks in Iraq will pose a significant reputational risk to the Iraqi financial sector at a time when the GOI is courting U.S., European and Asian banks to do business in Iraq. The recent U.S.-Iraq Business and Investment Conference that the Prime Minister attended highlighted the significant contribution that foreign private investment can have on Iraq's reconstruction and economic development. However, the presence of Bank Melli and other Iranian banks creates significant risks for U.S. and other international banks considering entering into correspondent relationships with Iraqi banks or opening branches in Iraq. Banks may be subject to severe monetary penalties and risk damage to their reputations as a result of transactions involving Bank Melli or other Iranian banks.

-- As an example of these risks, in January 2009, the U.S. Department of Justice and the Manhattan District Attorney's Office imposed a \$350 million penalty on Lloyds TSB Bank for processing transactions involving Bank Melli and other sanctioned Iranian banks. This action followed cases such as an \$80 million penalty on ABN AMRO Bank N.V. by U.S. federal and state regulatory authorities, in which the violations included transactions by its Dubai branch involving Bank Melli. If the government of Iraq does not address the

concerns of international banks about the risks created by Iranian banks and the ability of Iraq to police its own financial system, then it will undermine its efforts to attract foreign capital to contribute to the rebuilding and development of Iraq.

-- (U) UNSCR 1803 calls on member states to exercise vigilance over the activities of their financial institutions with banks domiciled in Iran, in particular with Bank Melli and Bank Saderat, to avoid transactions contributing to nuclear proliferation. Beyond the requirements of UNSCR 1803, Iraq has its own interest in exercising vigilance over Bank Melli and other Iranian banks. If the government of Iraq continues to allow Bank Melli to operate in Iraq, then at a minimum, it should focus appropriate supervisory attention and controls on Bank Melli's operations. The Government of Iraq should keep in mind that Iranian state-owned banks have a history of using deceptive financial practices to support illicit activity, and that the operations of multiple branches in Irbil, Karbala and Basra will be more difficult to subject to scrutiny.

-- (U) The United States urges your government and institutions to reconsider the decision to grant Bank Melli additional licenses to operate in Iraq and to exercise increased vigilance regarding all activity between Iraqi and Iranian financial institutions. The United States is willing to provide advice and assistance in your government's efforts to implement increased vigilance.

REPORTING DEADLINE

15. (U) Post should report results within seven business days of receipt of this cable. Please slug replies for ISN, T, TREASURY, and NEA. Please include SIPDIS in all replies.

POINT OF CONTACT

16. (U) Washington point of contact for follow-up information is Kevin McGeehan, ISN/CPI, (202) 647-5408, McGeehanKJ@state.sgov.gov.

17. (U) Department thanks Post for its assistance.
CLINTON